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MEMORANDUM FOR: Ray S. Chase
Director, INR

Copies of the attached memorandum have been sent
to David Newsom, Nancy Rawls, William Casey,
F. Randall Smith, George Kenney, John Renner,
John Ghiardi, Abraham Katz.

RAMSEY FORBUSH
Acting Director
National Estimates

26 July 1973
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MEMORANDUM FOR: Mr. Ramsey Forbush

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SUBJECT:

Suggested additional customers for Memorandum,
"The EC and Black Africa: Negotiating the Future Relationship."

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OFFICE OF NATIONAL ESTIMATES

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THE EC AND BLACK AFRICA: NEGOTIATING THE FUTURE RELATIONSHIP

SUMMARY

In the next couple of months the terms of future economic association between most of Black Africa and the expanded European Community will be worked out. There has been some US concern over the tendency of African nations after independence to maintain and even increase their economic ties with the states of Europe, both bilaterally and through association with the EC. Some US policy makers have been apprehensive about the creation of a bloc from which American trade and investment might be excluded. This paper examines the implications of an enlarged group of African and European associates for US interests. It concludes that although certain specific provisions of a new association agreement will be disadvantageous to the US, an enhanced European role in Africa will mitigate the influence of Communist and radical Arab groups and help to maintain the stability which the US desires in the area.

This memorandum was produced in the Office of National Estimates and discussed with appropriate offices of CIA. They are in agreement with the principal judgments of the paper.

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I. THE NEGOTIATING SCENARIO

1. Western Europe and Black Africa are in the process of developing new arrangements governing their trade and aid relationships. When the Six of Europe became the Nine, Britain brought with it to the European Community (EC) responsibilities towards 20 Commonwealth countries. In addition, negotiations for replacing the existing Yaounde II agreement^{1/} linking the 19, mostly French-speaking, Associated African States and Madagascar (AASM) with the EC were already scheduled to begin this fall. These two circumstances have engaged the European Commission in a process of working out new relations with over 40 developing countries.^{2/}

^{1/} The Annex of this paper gives a summary of association agreements between the EC and African states, as well as a description of the defacto private commercial ties and governmental attitudes which perpetuate European economic dominance in Africa.

^{2/} The African states eligible for future association are as follows:

- (a) The 19 present associates of AASM: Senegal, Mauritania, Upper Volta, Ivory Coast, Dahomey, Niger, Chad, Gabon, Central African Republic, Congo, Madagascar, Togo, Cameroon, Zaire, Burundi, Rwanda, Somalia, Mauritius, and Mali.
- (b) The 12 African Commonwealth nations: Nigeria, Ghana, Sierra Leone, The Gambia, Kenya, Uganda, Tanzania, Zambia, Malawi, Lesotho, Botswana, and Swaziland.
- (c) The five other African eligibles: Ethiopia, Liberia, Guinea, Sudan, and Equatorial Guinea.

Also eligible for association are several Caribbean Commonwealth countries.

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2. Compounding the difficulty of this blending process is the fact that most of the Francophone African states are already in the midst of individually reconsidering their bilateral cooperation agreements with France. On their part, the French are reluctant to lose their dominant commercial and cultural position in the former colonies. France wants to maintain reverse preferences, and is telling its African partners that the price of greater autonomy will be a reduction of support from the metropole. Many African associates feel that their sovereignty is seriously infringed by the existing agreements, and are particularly exercised by France's almost total control of their external economic affairs. Mauritania and the Malagasy Republic have recently left the franc zone, and other members of this currency area are demanding greater autonomy in monetary affairs.

3. By contrast with France's African relations, the Commonwealth -- in typical British fashion -- has no formal treaties of association among its 32 member-states, but the LDCs of this group enjoy substantial trade and aid benefits without the sovereignty-infringing financial and commercial controls maintained by France. Britain itself feels some obligation to safeguard the economic interests of its Commonwealth partners and is urging them to

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associate. This would protect the British export markets of the LDC states and would relieve Britain of having to continue bilateral aid to a non-associated state in addition to its payments into the European Development Fund (EDF). Britain opposes reverse preferences.

4. Formal negotiations between the African states and the European Commission are scheduled to begin in September, and both parties are struggling to arrive at common negotiating positions toward one another by then. Within the European group, the most divisive issue is that of whether to maintain reverse preferences as a necessary feature of African association with the EC. The British, the Dutch, and perhaps the West Germans -- sensitive to the objections of other major trading nations such as the US and Japan -- are opposed. France, the longstanding advocate of reverse preferences, has recently shown signs that it will press strongly for their continuation. The French may be able to get their way by winning over the undecided EC members, and it appears they will make this effort.

5. When the question of expanding the membership of African states associated with the EC was first raised, it was generally assumed that each eligible African country would either join in a

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general association agreement containing trade and aid provisions along the lines of Yaounde II or opt for a simple trade agreement. In a series of conferences, the African nations have tentatively agreed to approach the EC from a common front and to press for improved terms in the association accord which succeeds Yaounde II.

II. THE AFRICANS

6. The negotiations will hardly be a confrontation between equal parties: the African states possess neither the political nor economic influence to place major demands upon the EC's members. The offer of association was and is essentially a way of meeting the responsibility felt by Britain and France toward their former colonies, as well as an expression of their interest in maintaining historical and economic ties. The basic decision of whether or not to associate however, rests with the Africans. But since few of the associates or associables have any realistic alternative sources of the same trade and aid they derive from associating with Europe, they are left with deciding what *form* of association they desire and the more difficult matter of whether they can, in fact, approach the EC from a united position.

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7. The prospects for African unity in confronting Europe on these matters, however, are no better than they have been on the various other major issues over which the African states have divided among themselves. Fragmentation, moreover, has become institutionalized by a proliferation of regional and functional associations throughout the continent. Organizations, commissions, and conferences have been a major growth industry in Africa during the past decade; but such groups have done more to consolidate than to reduce the past division of Africa into competing or incompatible blocs based largely on the old colonial lines. Incompabilities in language and currency, the tendency to maintain established trading patterns, and the suspicion of many associables that the EC will broaden France's influence in Africa, remain strong factors working against greater intra-African cooperation.

8. The economic needs of the African states have chronically been at odds with their desires for political autonomy, and this ambivalence is reflected in their current approach to the EC. Africa is dissatisfied with its role as Europe's "backyard" -- the supplier of raw materials -- and is demanding a chance to develop secondary industries whose products will not be prejudiced by trade

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barriers in the developed countries. But since the processes of industrialization involve years of lead time, in the short run African nations cannot risk losing development assistance by pressing their European patrons too hard on economic or political matters.

9. The attention and money which the major non-European powers appeared ready to give to Africa in the 1960s have diminished considerably. US economic assistance to Africa has been steadily scaled down in recent years, and both the Soviet Union and China have become highly selective in distributing aid south of the Sahara. The Arab states -- notably Libya -- have become diplomatically active in Black Africa, but have not made any economic commitments which would challenge Europe's dominance there. Thus, the present Yaounde Convention, which contains economic aid as well as trade support is likely to be considered the best formula available to the AASM and associable states in their future ties with the EC.

The Francophone Associates

10. The decade-long experience of the AASM group as associates has been mixed, and certainly has not brought about the trade benefits

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they envisioned. Apart from the former French colonies (considered as a group) whose exports are largely agricultural, the only important AASM exporting country is Zaire, whose exports are mostly metals -- which enter the EC duty-free regardless of their origin. The major tariff preferences for Africa are on raw agricultural products, but they are granted in a way that discourages these countries from developing much-wanted secondary industries and thereby exporting even semi-processed materials.

11. To state the trade situation graphically: an index of EC tariff levels faced by the 10 products which constitute 75 percent of total AASM exports computed before and after these states associated shows that the level of preference was unchanged by the association arrangement, and the tariff preference of some major export products of certain associated states was even lowered.*

12. Association has failed to satisfy the original aspirations of the AASM states for growth in trade and diversification into finished products. This disappointment is further aggravated by the EC's more recent adoption of a generalized system of preferences for

* IMF study: "Trade Effects of the Association of African Countries with the EEC", November 1972, DM/72/91, page 31.

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all LDCs which serves to whittle away the degree of preference for the associates. In spite of increased trade by African associates with EC states other than France, the Yaounde agreements have not to any great extent altered the relative importance of France as the main export market for agricultural products of the former French colonies. The tariff reductions in EC countries other than France also do not appear to have affected the composition of commodities exported by AASM members.

13. In view of this disappointing failure to create meaningful preferences what is the positive benefit of continued association for the 19 of the Yaounde Convention? The heart of the matter, for the Africans, is financial aid which is tied to association. The EC has provided the African associates with substantial economic assistance under the terms of various association agreements since the Treaty of Rome in 1958. Under the five-year period of the second Yaounde Convention, \$918 million has been allocated for the original 18 -- about 25 percent more than Yaounde I provided from 1964 to 1969. Of this total, \$748 million is in the form of European Development Fund (EDF) grants, \$80 million as soft loans, and \$90 million as European Investment Bank loans on harder terms.*

* Compared with the more than \$730 million just in EC aid obtained by the AASM alone under Yaounde I, all of Black Africa in that same 1964-1969 period received about \$1.3 billion from the US, \$400 million from the IBRD, and \$130 million from the USSR and Eastern Europe.

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14. The present group of Yaounde II associates (AASM) will undoubtedly opt for continued association along the lines of the existing Yaounde formula. These states have no realistic alternatives to association and will stand a better chance of resolving their differences with the Europeans by haggling over details once the general terms of a new agreement are drawn. This group finds it much more natural to act in unison than the associables: besides their linguistic compatibility, most of them share a past experience of regional cooperation, closely related currencies, and personal ties between their leaders. Two of the most influential leaders, Senghor of Senegal and Houphouet-Boigny of the Ivory Coast, are strong advocates of continued close ties with Europe.

15. One unifying motive for many of these leaders is Francophone fear of Nigerian influence. While they advocate greater economic integration in West Africa, the "old men" of French Africa suspect that too strong a union with their more prosperous Commonwealth neighbors would threaten what they consider as their unique identity and their special relationship with Europe. Nigeria has already had moderate success in suggesting to Niger, Togo, and Dahomey that their economic interests lie in closer cooperation with Lagos.

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16. As an inducement to continued association, the European Community has assured the AASM Africans that expansion of association membership will not mean more LDCs slicing up the same aid "pie", but rather a larger pie with the addition of British and Danish contributions. EDF assistance is multilateral and long term, makes development planning easier and more rational than annually fluctuating bilateral aid, and reduces the economic subordination of any given African LDC to a single European patron-state. It is, therefore, a form of aid which is psychologically satisfying to proud and sensitive African leaders, who are anxious to avoid being accused of neo-colonialist ties but too poor to pass up an offer of assistance.

The Commonwealth Associables

17. The 13 African Commonwealth associables are economically stronger, far more populous and in general developing more rapidly than the AASM; as a group they also have considerably fewer shared interests than the associated states. Although most of them will choose to associate with the EC, the Anglophones will attempt to make numerous demands upon Europe to reflect what they consider as their specialized needs. The importance of making a choice on the matter of association varies with the significance of British trade for the particular Commonwealth country.

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18. Britain's entry into the Community means that in 1975 she will be imposing a Common External Tariff (CXT) on imports from unassociated Commonwealth African countries; in most cases this will mean an increase in British duties. In the absence of an association agreement, Britain will have to apply the cocoa tariff against Ghana but not against the Ivory Coast, the peanut oil tariff against The Gambia and Nigeria but not against Senegal. With the exception of Nigeria, on whose oil the EC duty is zero, the Commonwealth African countries cannot afford to ignore the offer of association with the EC; their problem is to decide which is the most advantageous type of association for them.

19. Among West African Commonwealth countries Ghana stands to gain the most from association, since it would otherwise lose much of its UK cocoa market to its Francophone neighbors when the UK begins applying the CXT. Ghana depends on cocoa for about half of its export receipts, and half of its cocoa and most of its timber will go to the enlarged EC. Sierra Leone and Zambia have little present need for EC preferences since their exports are predominantly diamonds and minerals, which already enter the EC duty-free. Association could, however, help them to diversify into agricultural exports.

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20. Kenya, Uganda, and Tanzania have been unhappy with the existing Arusha agreement* because of its tariff quotas and lack of access to EDF funds. The option to associate on Yaounde-type terms, but without reverse preferences, is attractive to them because it will raise tariff quotas on their crucial coffee and canned fruit exports and will allow their participation in EDF. Botswana, Lesotho, and Swaziland want very much to associate, but they are tied to the Southern African customs union and the rand currency area. Therefore they will be able to go no further towards association than South Africa is willing to let them go.

21. For Nigeria, the impact of Britain's accession to the EC is mixed. While Britain has remained her largest single trading partner, trade with the original Six and other countries outside Western Europe has grown over the years because of the emergence of petroleum as the predominant export. Relying on the strength of its oil exports, Nigeria is the only Commonwealth country thus far to have openly rejected the option of association. Some of its objection to EC association is political: Nigeria has leadership ambitions in West Africa and feels that these designs are threatened by European (especially French) meddling in Africa.

* See Section B of Annex.

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Almost 20 percent of the money value of Nigeria's exports, however, is still in traditional primary products, and Lagos is amenable to a specialized trade agreement which would protect its European market for primary commodities -- particularly its western regional cocoa and its northern peanuts.

III. US INTERESTS

22. The potential extension of EC preferential trade agreements to a wider group of African associates has prompted expressions of concern from some US officials. These concerns focus on future threats to our exports, and especially on our desire to avoid the precedent of continuing these trade agreements which we believe are a violation of the General Agreement on Tariffs and Trade (GATT) principles. Evidence to date suggests that the effects of the Yaounde and Arusha Conventions have been small for US exports as a whole and would remain so under an association agreement containing tariff levels of Yaounde II. First, reverse preferences are insignificant for some US exports because the trade restrictions and/or the preference margins are minor. Second, a substantial portion of US sales to EC associates (often 50 percent or more) has consisted of aid-financed goods and government purchases to which trade and tariff restrictions, and hence preferences, do not

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apply. Third, even with full tariff exemption by the EC, the relatively unindustrialized partner countries will not soon become competitive with the US in manufactured exports.

23. Regardless of the impact these particular trade preferences might have on our exports, however, there is far more concern that proliferation of preferential agreements threatens to block progress towards freer, expanding trade under GATT and to divide the world into large, relatively isolated trading zones. The principal US criticism of the EC's association agreements is that they depart from the unconditional most-favored-nation principle of the General Agreement without meeting the conditions required in GATT for Customs Unions.

24. The AASM states have already seen their preferences diluted by Europe's adoption of a generalized system of preferences (GSP), and fail to see why the US views these watered-down association benefits as an obstacle to its own accommodation with the EC. In fact, Africa is unlikely to consider generalized preferences as an alternative to association with the EC unless the other developed nations come up with more attractive schemes.* The Africans would

* *The proposed US generalized preference system would, depending on competitive needs, encompass only an estimated \$78 million of presently dutiable US imports from Africa, out of a total of \$1,243.0 million in 1972 (OECD figures, FOB).*

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undoubtedly demand the liberalization or abolition of quotas in the existing European and Japanese generalized preferences, as well as in the proposed American system. In addition, generalized preferences would have to be extended to a broader range of agricultural products than at present. If, however, such a liberalized system of generalized preferences were available as an alternative to EC association (an unlikely eventuality), it could serve to erode the ties of tradition which lead these former French and British colonies to maintain established trade links.

25. The Europeans already understand our position on trade preferences, and many African associates will increasingly resent what they view as American meddling with their interests over abstract matters of principle. The African states are more conscious than ever of their own national interests when making economic decisions, and the US is not dominant among those interests. The African declaration against reverse preferences, for example, was made quite independently of our urgings in that direction.

* * * * *

26. There will, certainly, be a new agreement under which most of Black Africa's nations will formally associate with the European

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Community. Although expanded association will have little immediate effect upon established trading patterns, this agreement will very likely contain trade preferences which the US finds objectionable -- including some provision for reverse preferences, if France chooses to press the Francophone countries on this issue. In the absence of an attractive alternative for the African states, America presently possesses little leverage for pressing its opposition to such trade arrangements. However, there is no reason to believe that the successor to the present Yaounde Convention will represent the last word in European-African economic relations; the new association accord will probably be reexamined within a few years, especially as the Francophone states press for better terms in their bilateral relations with France.

27. In most respects the closer association of Black Africa with Western Europe will encourage a pattern of relationships which is favorable to overall US interests in the sub-Saharan area. An expanded European role there will insure a continued strong Western presence in competition with Communist or militant Arab influence in Africa. Given the continued bleak prospects for African unity, this gathering of disparate African associates within a single cooperative framework could help maintain the political stability which the US desires in Africa.

ANNEX

NOTE ON ECONOMIC AGREEMENTS AND COMMERCIAL TIES LINKING
AFRICA AND EUROPE

A. The Yaounde II Convention

1. The Convention of Association between the European Economic Community (EC) and 18 Associated African and Malagasy States (AASM) signed in July 1969 and effective from 1 January 1971 to 31 January 1975, "Yaounde II", contains a series of agreements relating to trade and aid. In May 1972, Mauritius signed an agreement by which it became the 19th full associate of the EC. In return for European aid and the elimination of EC tariffs against Mauritius' products (except for sugar), Mauritius grants to the EC products reciprocal preferences which will be at least equivalent by 31 January 1972 to the Commonwealth preferences already accorded to the United Kingdom.

2. Yaounde II, basically provides for the formation of a partial free-trade area between the EC and its African partners. Since 1 July 1968, all imports from the African associates have entered the Community duty-free except for certain coal, steel, and petroleum products and agricultural imports "similar to or competitive with European products",

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for which arrangements are made case by case. The associated states, in return, granted "reverse" preferences to the EC by gradually eliminating tariffs and abolishing quantitative restrictions on products imported from the member states although limitations on total imports of certain commodities are permitted. These limitations are considered necessary for development, industrialization, to contribute to national budgets or to protect infant industries. In all of the above cases, restraints must not discriminate among the Six and must not be less favorable than those applied to products originating elsewhere.

3. With regard to the non-EC trade of the 19, Yaounde II permits the 19 to establish or join customs unions or free-trade areas, among themselves or with third countries, and to participate in a system of generalized tariff preferences. In an action affecting the preferences granted under Yaounde II, the EC has been lowering the Common External Tariff on certain tropical products originating in third countries thereby diminishing the margin of preferences granted to the Associates on imports of such products.

4. The EC provided the African Associates with substantial amounts of economic assistance under the terms of the first five-year Yaounde Agreement and, previously, the Treaty of Rome which established

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the EC in 1958. Under the second Yaounde Convention, \$918 million has been scheduled in various forms of economic aid to the 19 associates.

5. France has dominated and virtually directed the African EC relationship from the beginning. Fourteen of the 19 associated African states are former French colonies, each of which is heavily tied to the metropole through a combination of formal agreements and private commercial interests. Upon independence, France's former African possessions signed comprehensive "cooperation" agreements which perpetuated French cultural and economic dominance in exchange for bilateral development assistance and military protection.

6. France's proprietary attitude toward its former African possessions has been most arrogantly apparent in the matter of trade. The cooperation accords signed by the Africans at independence specifically required consultation with France when import programs were to be drawn up or new trade agreements prepared. Thus the French were assured that nothing in the first or second Yaounde Conventions infringed upon their own economic interests. In return for African acquiescence to French guidance, France used her strength in the EC to direct a large share of EDF funds to her African clients.

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Despite the diversity of European and African participants in the current preparations for a new association agreement, France's economic leverage for protecting her interests in Africa is still considerable.

7. The major symbol of French financial control over its former possessions is the African Financial Community (Communaute Financiere Africaine, or CFA). The 14 member-states use the CFA franc as their currency, which is fully convertible to French francs at a fixed rate guaranteed by France. The African issuing banks, moreover, are French-controlled, and monetary and fiscal matters are determined by French officials in the financial ministries of most of the 14 states.

B. The Arusha Agreement

8. The Association Agreement between the three Partner States in the East African Community and the European Economic Community signed at Arusha, on 24 September 1969, incorporates to a large extent the provisions of an earlier agreement which was signed at Arusha on 26 July 1968, but which expired before it was implemented. The Agreement, effective from 1 January 1971 to 31 January 1975,

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provides for trade and tariff preferences and reciprocal preferences which are of a more limited scope than under the Yaounde Convention. The Agreement provides the exports of East African Associates -- Kenya, Tanzania, and Uganda -- with duty-free and quota-free access to the EC market, with the exception of coffee, tinned pineapples and cloves, for which duty-free entry is subject to a ceiling, and agricultural produce subject to the EC common agricultural policy, for which arrangements are made case by case.

9. In return, the three Commonwealth countries agreed to grant tariff concessions ranging from two to nine percent on 59 products entering the East African Market from the EC. The East African countries may, however, impose levies or quantitative restrictions on imports of EC produce so as to promote East African development, to contribute to their budgets, to counter balance-of-payments difficulties or, in the case of agricultural products, for purposes of the development of the East African Common Market. Such restrictions must, however, not discriminate between EC members. The Arusha Agreement contains no provisions for aid.

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